

CITY OF FLAGSTAFF PRIVILEGE (SALES) TAX

RESTAURANTS AND BARS

This publication is for general information about the City of Flagstaff transaction privilege (sales) tax on restaurant and bar sales. The city's transaction privilege tax is commonly referred to as a sales tax, however, the tax is on the privilege of doing business in Flagstaff and is not a true sales tax. For complete details, refer to the Flagstaff City Code. **In case of inconsistency or omission in this publication, the language of the city code will prevail.**

TAX RATE ON RESTAURANTS AND BARS EFFECTIVE JULY 1, 2003

The city has a 1.601% privilege tax on restaurant and bar sales. In addition the city also has a 2% hotel, restaurant and lounge tax that applies to restaurant and bar sales. The total tax rate when combined with the county and state taxes is 10.118%.

City of Flagstaff Privilege (Sales) Tax	1.601%
City of Flagstaff Hotel, Restaurant and Lounge Tax	2.000%
State of Arizona	5.600%
Coconino County	<u>0.925%</u>
Total Tax Rate on Restaurants and Bars	10.126%

WHO PAYS RESTAURANT AND BAR TAX?

You owe transaction privilege (sales) tax on restaurant and bar sales if you operate a business which prepares and sells food and drink for consumption on or off the premises. In most instances the applicable city tax rate is 3.601%, but there are cases in which the hotel, restaurant and lounge tax does not apply.

Examples of taxable activities subject only to the 1.601% city tax include:

- . self-serve fountain drinks

Examples of taxable activities subject to the combined 3% city taxes include:

- . standard eat-in restaurant
- . restaurant serving food to eat in or take out
- . deli serving prepared food such as sandwiches, roasted chicken whether or not eaten on premises
- . bars, taverns, etc.
- . ice cream parlors and bakeries in which the food is consumed on the premises
- . NAU dining halls when meals are paid for with cash
- . caterers
- . Food items sold in theaters, bowling alley, concerts, sporting events

Food sold in the following manner is not subject to the tax:

- . vending machine sales
- . NAU dining halls when meal tickets are used
- . public school districts (normal operations)
- . homes for the aged or mentally or physically impaired
- . fraternity and sorority houses
- . day care centers
- . sales to nonprofit primary health care facilities
- . ice cream parlors and bakeries in which the food is not consumed on the premises

PROCEDURE FOR SALES TAX PAYMENT

First, apply for a Transaction Privilege (Sales) Tax license from the City of Flagstaff licensing department, or call (928) 779-7685 ext 7614. Then, report and pay sales tax to the city with the sales tax return provided by the licensing department. Taxpayers pay tax monthly, quarterly or annually based upon the annual city sales tax liability estimated by the taxpayer.

REPORTING SALES ON THE SALES TAX RETURN

Report income from restaurant and bar sales under the appropriate business class on the city sales tax return. Business classifications are:

- . 5810 Restaurants With Lounges
- . 5820 Restaurants
- . 5830 Bars and Lounges

FACTORING AND COLLECTING SALES TAX

1. Factoring the Tax

Whether you charge the tax separately or factor the tax into the sales price, sales tax should be included in the gross income reported on the sales tax return. Deduction #11 then may be taken on the return for the city, county and state sales tax included in the gross income figure.

You are allowed to include sales tax in the price of an item, rather than show the tax separately. If you choose to do so, use factoring to "back into" the tax included in your gross sales. To factor the sales tax, divide the gross income by 1 plus the combined tax rates. For restaurants and bars the total tax rate is 10.126%, thus the gross income is divided by 1.10126. The result will be taxable income excluding sales tax. The difference between gross income and taxable income is sales tax collected.

Gross Income	Divided by 1.10126	=	Taxable Income
(Including Tax)	(1 plus the Tax Rate)		Excluding Sales Tax)

For example, if your gross income from a restaurant is \$100, tax included, and the tax is 10.126%, your tax calculation is:

Gross income, including sales tax, of \$100 divided by 1.10126 = Taxable Income of \$90.81

$\$100 - \$90.81 = \$9.19$ Sales Tax collected

2. Collecting the Tax

If you choose to separately bill and collect the sales tax, you must remit the total amount collected even if it exceeds the calculated tax liability. The excess tax collected must be remitted proportionately to the city, county and state as excess collections.

SPECIAL SITUATIONS

1. Restaurants Selling Groceries

Grocery stores, delis and other retail outlets qualified to sell tax exempt food, but also operate a restaurant on the premises, must keep separate records for the two activities. Prepared food sold in the restaurant is taxable as a restaurant sale whether it is consumed on or off the premises.

2. Meals or Drinks Sold to Governmental Entities

Income from the sale of meals or drinks to the U.S. government, the State of Arizona, Coconino County, the Flagstaff Unified School District and all subdivisions of these entities is not taxable.

3. Tips

Gratuities (tips) separately charged on a patron's check are not subject to the sales tax provided:

1. Separate records are kept of the gratuities for all employees providing the service; and
2. All of the gratuities are distributed directly to those employees who provided the service. Otherwise, the full amount of the gratuity is subject to tax under this classification.

4. Fund Raising

Sales of food and drink for fund raising by churches, lodges and other nonprofit organizations not regularly engaged in the restaurant business are not taxable.

5. Cover Charges

Cover charges and other minimum charges made by a restaurant or bar are subject to the city's 1.601% tax. Admission charges for entertainment are taxable under the amusement classification.

6. Employee Meals

If there is a charge for employee meals, the meals are subject to the tax. If there is no charge for the meal, and the employee consumes the food and drink on the premises during work hours, there is no sales tax due.

7. Veteran's Service Organizations

Sales of food or drink prepared for consumption on the premises of any veteran's service organization chartered by Congress, including auxiliary units, are exempt.

8. Sales to Hospitals

Sales to hospitals or to licensed health care institutions operated exclusively for charitable purposes or operated by the federal or state government or their political subdivisions are exempt.

9. Sales by Hospitals

Food served to hospital patients is exempt. Food served to the public, such as in cafeterias, is taxable.

FOR INFORMATION CALL:

(928) 779-7685 ext 7614

(928) 779-7656 fax

OR WRITE:

City of Flagstaff

Sales Tax Division

211 W Aspen

Flagstaff, AZ 86001